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SUBJECT: CAN THE INDIAN FILM INDUSTRY GO GLOBAL?

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11. SUMMARY: The Indian film industry - centered around the Hindi-language industry in Mumbai, known as "Bollywood" - is the world's largest. Nevertheless, with modest revenues and low profitability, the industry's impact is more cultural than economic. In the last decade, however, the Mumbai-based entertainment industry has begun to corporatize, professionalize, and seek broader - including more global - audiences. With rising incomes and extensive room for expansion, industry representative and analysts agree that the film and entertainment sector has tremendous growth potential. While few expect Indian films to catch on globally, Indian entertainment companies are aiming to develop content and partnerships to tap both domestic and international audiences. This cable explores the changing dynamics of the Indian film industry and its global ambitions; a subsequent cable looks at the potential for "Hollywood-Bollywood" partnerships in this sector. END SUMMARY

SMALL INDUSTRY WITH A BIG NAME

12. India is home to the world's largest film industry, with Bollywood - shorthand for the Hindi-language film industry based in Mumbai - at its center. While the Indian film industry has always been diverse - many of the world's best known "art house" directors come from India - the industry was built on three hour action and romance films, with numerous dance and musical numbers. The Indian film industry produces roughly twice the number of movies as the American film industry, and sells 2.5 times the number of box office tickets as the U.S market. However, the Indian film industry's domestic box office revenues have been modest; in 2008 Indian films earned only USD 1.6 billion compared to Hollywood's USD 9.7 billion. (Note: Ticket prices in India are considerably less expensive than those in the U.S. or Europe, one reason profits are lower. End Note.)

13. Aashish Singh, Vice President of Yash Raj Studios, one of the oldest production studios in India, pointed out that despite its fame, Indian films produce little fortune; the market for Indian films is highly fragmented, and only a few films make any money. According to film producer G.K. Desai, only one in every 10 Hindi movies is successful. Siddharth Roy Kapur, the CEO of UTV Motion Pictures, concurred, and averred that only five percent of Hindi movies released in 2009 made a profit. Nevertheless, Kapur says, people continue to make films because of the attraction and glamour of Indian cinema, and the long-term revenue potential of video and cable releases.

¶4. With over 22 national languages, local and vernacular-based industries compete in a highly regionalized market. Of the 1000 films produced annually, Bollywood produces about 200, the rest coming from regional or non-Hindi productions. However, in terms of reach and revenue, as well as its stable of nationally-recognized stars, Bollywood films dominate the industry. Jehil Thakkar, Head of Media and Entertainment for KPMG, says that Bollywood accounts for 46 percent of the total Indian film industry revenues film industry experts noted, however, that South Indian cinema - Tamil, Malayalam, Telegu, and Kannada language films - perform better at the box office, with four of every ten films becoming profitable. Contrary to popular belief, many in the industry admit that the South Indian film industry is better developed than the better known Hindi language film industry. According to Desai the southern film industry is more organized than Bollywood, and Kapur admitted that the technical talent and the quality of South Indian films is far superior to Bollywood films

#### THE JOURNEY FROM "BLACK MONEY" TO MODERN CORPORATIZATION

¶5. In recent decades, the Bollywood film industry has been associated with the notorious Mumbai underworld, at the nexus of gangsters, money, and politics. According to Thakkar, this association stemmed from the financing needs of the industry; until 2000, by government fiat, the film industry was ineligible for bank credit, private equity, and other means of legitimate commercial financing. As a consequence, films were financed by ad hoc collections of investors, many of whom were from the

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construction and trade industries, who charged interest rates as high as 60-100 percent. The industry also welcomed funds from gangsters and politicians, looking for ways to launder their ill-gotten gains, known in India as "black money." After the government added the film industry to the list of legitimate industries, the corporatization of Bollywood - and the wider entertainment industry - began. Most of the major entertainment firms have evolved into a broad range of content lines, including films, TV, and music, much like the U.S. counterparts. Today, even leading film stars, like Amitabh Bachchan, have issued IPOs and listed their own production companies on the stock exchanges. However, Sanjeev Lamba, the CEO of Reliance Big Pictures which runs Anil Ambani's Reliance ADA group's movie business, lamented that the Indian film industry is still 60-70 years behind Hollywood in terms of corporatization.

¶6. Following the Hollywood model, many film and entertainment companies are moving away from an actor/star-based system to a system more reliant on the production company's brand, and its stable of producers and directors, says Kapur. In doing so, studios can lessen their dependence on actors -- who often command fees for as much as 50 percent of the film's budget (compared to 10-15 percent in the U.S.)-- and increase their chances of profitability for each film. Kapur blames excessive competition and multiple avenues and sources of financing for much of the industry's problem because there is too much money and too many people chasing limited amount of talent. Akshaye Widhani, Vice President of Yash Raj Films, believes that there is currently a "price bubble" in the film industry. The entry of foreign studios and availability of multiple financing options have built up unrealistic expectations, especially with regard to actors' salaries, he complained. Widhani believes that costs have to decrease by 40 percent for the film business to sustain itself in the long term. However, actor's expectations will become more realistic only after one of the major production studios fails or declares bankruptcy, he

admitted.

## ROOM TO GROW

17. Industry representatives and analysts agree that the Indian film industry offers great opportunities for domestic growth. KPMG expects revenues from Indian cinema to grow from USD 2.3 billion in 2008 to USD 3.6 billion by 2013. Thakkar told EconOffs that screen penetration and consumer spending is still extremely low in India, with both on the rise. The largest theatre chain in India has less than 200 screens; the world's largest movie exhibitor owns over 6,600 screens. With 12 screens per million people in India, compared to 117 screens per million in the U.S., there is considerable room for growth. Additionally, according to KPMG, consumer discretionary spending is expected to increase from 39 percent to 70 percent of total household spending by 2025. With flat growth projections for the U.S. and European film markets, India is an attractive destination market for both foreign and domestic firms.

## CAN BOLLYWOOD GO GLOBAL?

18. Indian entertainment companies are increasingly interested in developing and co-producing Hollywood films intended for Western audiences. Indian film companies are also making inroads in Hollywood. UTV Motion Pictures co-produced two films with Fox Searchlight, "The Namesake" and "I Think I Love My Wife" and one with 20th Century Fox, M. Night Shyamalan's "The Happening," which grossed over USD 170 million worldwide. Kapur explained that the UTV-Hollywood co-production collaborations for Hollywood movies were "tactical" and driven by the script of the films. Kapur says that UTV has had more traction with the Western market through film festivals. In fact, UTV just worked with Aamir Khan Productions to gain entry to the Sundance Film Festival that has recently premiered its first Indian film, "Peepli Live." Additionally, Apoorva Mehta, CEO Dharma Productions, says that they will premier their new movie "My Name Is Khan" at the Berlin Film Festival which will give the movie global attention. (Note: In the last three years, major U.S. studios have signed agreements to co-produce Bollywood films with established Indian directors and production houses. Unfortunately, all of the joint co-productions released have

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been unsuccessful so far at the box office. See septel. End Note.)

19. The most aggressive Indian player in Hollywood is Anil Ambani's Reliance Big Pictures, which has invested USD 325 million for a 50 percent stake in Steven Spielberg's Dreamworks. The group has also forged development partnerships with several U.S. production houses owned by Nicholas Cage, Jim Carrey, Tom Hanks, Brad Pitt, Julia Roberts and George Clooney. Reliance Big Pictures' COO, Jawahar Sharma, explained that global ambition, rather than strategy, drove the group's decision to tap Hollywood. All of the Reliance ADA group business operations are globally-oriented and the film business is no exception, he continued. The group has also acquired movie theatres in the U.S. in areas populated by Indian diasporic communities to showcase Bollywood and regional Indian films. Yash Raj Studios' Singh also believes that Reliance ADA's initiatives in the U.S. are strategic, rather than profit-seeking, in nature.

¶10. KPMG's Thakkar noted that the Indian film industry has not yet been able to create universally appealing content for a global audience. The genre of Indian film is extremely different from a Hollywood movie; it is longer, has many song and dance numbers, and is considered too dramatic to appeal to Western audiences. While commercial Indian films have had some success in parts of the former Soviet Union and Africa, and a few Indian art house productions have been profitable, overall, Indian films are still reliant on Indian diasporic audiences for global revenues. Some new directors who are exposed to Western film making are making Indian movies in keeping with Western sensibilities to draw wider audiences in world cinema. However, overall, no industry participants predicted that films popular with Indian audiences would find true global audiences; recognizing this, Indian entertainment companies hope to develop content separate from the Indian audience that would appeal to viewers outside India.

¶11. (U) Reliance ADA's Lamba said that there has never been a "genuine" crossover film which has fared well in both international and local markets. Indian films pitched to an international audience rarely do well locally, he added. In contrast, using a foreign language film script to make a Bollywood movie with Indian stars has great potential, he said. Yash Raj Studios' Singh explained that crossover films need to appeal to a universal audience and cultural tastes and preferences are always difficult to predict.

¶12. COMMENT: The film industry in India is beginning to share the global ambitions of other Indian companies and industries. As a first step, many newly-professionalized companies are cautiously getting a feel for global markets and opportunities. Larger entities with deeper pockets - such as Reliance Big Pictures - have moved more boldly, but most of the other artists, technicians and film houses are looking for smaller parts and opportunities to expand beyond India, while maintaining a foothold in their core domestic market. Although visibility for the Indian film industry has increased vis-à-vis movies like "Slumdog Millionaire," the reality is the industry is just beginning to corporatize and understand the Western market. Though many players are attracted to the glamour of the industry, the standard Indian movie rarely makes a profit and is unlikely ever to appeal to Western audiences. The film industry is well-aware of this trend, and seeks to find other avenues for entering the Western market and improve their own profitability within the South Asian diaspora. End Comment.  
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